

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF PENTWATER	County OCEANA
Audit Date 3/31/05	Opinion Date 6/9/05	Date Accountant Report Submitted to State: 7/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

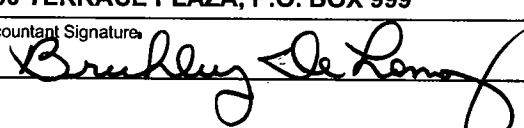
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC			
Street Address 500 TERRACE PLAZA, P.O. BOX 999		City MUSKEGON	State MI
Accountant Signature 		ZIP 49443	Date 7/25/05

Village of Pentwater
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2005

Village of Pentwater
LIST OF ELECTED AND APPOINTED OFFICIALS
March 31, 2005

ELECTED OFFICIALS

Village Council President Juanita Pierman
Village Council..... Alvin Docter
Marilyn Sullivan
Jared Griffis
James Alfredson
Don Palmer
Richard Hartman

APPOINTED OFFICIALS

Village Manager Tim Taylor
Village Clerk/Treasurer Frances A. Tomczak
Deputy Village Clerk/Treasurer Cynthia Maguire
Village Accountant Dan McDonald

Village of Pentwater

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Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. This report consists of a series of financial statements for the Village of Pentwater as of March 31, 2005. The Village of Pentwater's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year the Village of Pentwater had total assets of \$5,852,297 and total liabilities of \$1,643,295 leaving net assets of \$4,209,002. Of this amount, \$1,662,051 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors. The Village has heavy infrastructure investments in water, sewer, and marina facilities evidenced by business-type total net assets of \$2,839,723, over 71% of total net assets.

Business-type functions had an increase in net assets of \$79,597 comprised of a \$16,224 net asset increase in the Sewer Fund, a \$51,251 net asset increase in the Water Fund and a \$12,122 net asset increase in the Marina Fund. The changes in net assets for the Marina Fund includes a transfer from the General Fund for dock replacement.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

Both of the government-wide statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the Village include the water, sewer and marina services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, government fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Fire Fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The Village of Pentwater has three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer and marina operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Village's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Village of Pentwater's Net Assets

Recall that the Statement of Net Assets provides the perspective of the Village as a whole. The following table provides a summary of the Village's net assets. As of March 31, 2005, the Village's net assets from governmental activities totaled \$1,369,279 and \$2,839,723 from business-type activities, creating a government-wide total net asset of \$4,209,002. Since this is the first year the Village has prepared financial statements following GASB Statement No. 34, comparisons to fiscal year 2004 are not available.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

	Governmental Activities 2005	Business-type Activities 2005	Total 2005
Current and other assets	\$ 1,402,140	\$ 1,114,561	\$ 2,516,701
Capital assets	1,050,808	2,284,788	3,335,596
Total assets	2,452,948	3,399,349	5,852,297
Other liabilities	267,891	158,626	426,517
Long-term liabilities outstanding	815,778	401,000	1,216,778
Total liabilities	1,083,669	559,626	1,643,295
Net assets:			
Invested in capital assets, net of related debt	230,808	1,829,788	2,060,596
Restricted	327,352	159,003	486,355
Unrestricted	811,119	850,932	1,662,051
Total net assets	\$ 1,369,279	\$ 2,839,723	\$ 4,209,002

Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

Village of Pentwater's Changes in Net Assets

The results of this year's operations for the Village as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2005. Since this is the first year the Village has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2004 is not available.

	Governmental Activities 2005	Business- type Activities 2005	Total 2005
Revenues			
Program revenues:			
Charges for services	\$ 225,887	\$ 507,194	\$ 733,081
Operating grants and contributions	122,647	-	122,647
Capital grants and contributions	9,311	3,226	12,537
General revenues:			
Property taxes	674,084	-	674,084
Grants and contributions not restricted to specific programs	90,284	-	90,284
Other	48,451	15,856	64,307
Total revenues	1,170,664	526,276	1,696,940
Expenses			
General government	213,762	-	213,762
Public safety	393,513	-	393,513
Public works	322,535	-	322,535
Economic development	18,674	-	18,674
Culture and recreation	59,675	-	59,675
Interest on long-term debt	49,814	-	49,814
Sewer	-	221,533	221,533
Water	-	146,559	146,559
Marina	-	118,587	118,587
Total expenses	1,057,973	486,679	1,544,652
Change in net assets before transfers	112,691	39,597	152,288
Transfers	(40,000)	40,000	-
Change in net assets	72,691	79,597	152,288
Net assets - April 1	1,296,588	2,760,126	4,056,714
Net assets - March 31	\$ 1,369,279	\$ 2,839,723	\$ 4,209,002

For the year-ended March 31, 2005, governmental activities net assets increased by \$72,691 and business-type activities increased by \$79,597 and resulted in a government-wide increase of \$152,288.

Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

Governmental Activities

Several events and projects contributed to the \$72,691 net asset increase in governmental activities. The donation of the walkway between the Fire Department and the Pentwater Area Public Schools complex by the Junior Women's Club. The contribution by the Pentwater Area Public Schools toward the Third Avenue storm drain project. The Village also received a grant through the Mason-Oceana 911 for an upgrade of police radios.

Business-type Activities

Operating revenues in Water, Sewer and Marina Funds totaled \$507,194. The Water, Sewer and Marina Funds experienced operating expenses of \$449,915 for a net operating income for business-type activities of \$57,279.

General revenues in the Water, Sewer and Marina Funds were \$55,856. These were comprised of investment income in all three funds of \$15,856 and transfer from the General Fund to the Marina Fund of \$40,000.

Net assets for business-type activities increased by \$79,597 in the year ending March 31, 2005.

In fiscal 2005, the Water Fund paid off a loan to the General Fund in the amount of \$142,885.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the Village of Pentwater uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, the governmental funds reported a combined fund balance of \$1,115,700. Of this number, \$969,573 represents the unreserved fund balance, comprised of \$568,705 in the General Fund, \$74,588 in the Fire Fund, and \$326,280 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances \$52,555, debt service \$64,426, capital projects \$23,364, and prepaid items \$5,782.

The General Fund is the chief operating fund of the Village. The General Fund pays for administration, police, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$648,794, a \$3,565 decrease from fiscal 2004. The unreserved General Fund balance was \$568,705.

Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

General Fund revenues exceeded expenses by \$30,202 before transfers, due in part to increases in tax revenues, charges for services and investment earnings. After transfers, the net change in fund balance was a decrease of \$3,565. Combined with a March 31, 2004 balance of \$652,359, the General Fund had a March 31, 2005 balance of \$648,794.

Proprietary funds

The Village's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Unrestricted net assets in the Sewer Fund increased by \$16,224. The Water Fund increased by \$51,251, and the Marina Fund increased by \$12,122. The result was an overall increase in unrestricted net assets of \$79,597.

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The year ending March 31, 2005 was typical.

General Fund revenues were increased to reflect the actual amount of property taxes collected, State grant for Police Department radios and a donation by the Junior Women's Club.

General Fund expenditures were increased to reflect a transfer to the Local Street Fund for the Third Avenue storm drain and anticipated cost increases for professional services, and wages and related benefits.

The actual expenses came in below budget in the clerk and police departments primarily due to actual wages and benefits being lower than anticipated. The DPW department actual expenditures were less than budget due to lower than anticipated utilities and equipment rental.

Capital Asset Administration

The Village's investment in capital assets for its governmental and business-type activities as of March 31, 2005 totaled \$3,335,596 (net of accumulated depreciation). Investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

Major capital asset events during the current fiscal year included construction of the Third Avenue storm drain, dock replacement at the Marina, paving the Fire Department driveway and the walkway between the Fire Department and the Pentwater Area Public Schools.

Debt Administration

As of March 31, 2005 the Village had outstanding long-term liabilities of \$1,216,778. Accounting for the total are governmental activities of \$815,778 and business-type activities of \$401,000 which consist of general obligation bonds, compensated absences, and revenue bonds.

On the governmental side of the Village, the largest source of debt is the general obligation bonds in the amount of \$785,000 for the downtown improvement project.

On the business type side, the largest source of debt is the Sewer Fund revenue bonds in the amount of \$401,000.

Village of Pentwater
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2005

GENERAL ECONOMIC OVERVIEW

The Village adopted a budget for the General Fund with expenditures exceeding revenues by approximately \$7,000 for fiscal year 2006. The expenditures exceeded revenues primarily due to increases in health insurance and vehicle fuel costs. In addition, the budget calls for a 1% decrease in revenues, primarily the result of an anticipated decrease in state shared revenue.

In fiscal year 2006, the Water Fund and Sewer Fund budgets call for a decrease in net assets of approximately \$24,000 and \$172,000, respectively. These decreases in net assets are primarily the result of anticipated repair projects to the water and sewer system.

In addition, the Village is investigating the possibility of paying off the sewer bonds early. This early repayment would reduce future years interest expense.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the Village's finances as well as to depict the Village's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact Village Hall at (231) 869-8301. Pentwater Village Hall, located at 327 South Hancock Street, Pentwater, MI 49449, is open Monday through Friday from 8:00 AM to 4:00 PM, excluding most national holidays.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 9, 2005

Village Manager and Members
of the Village Council
Village of Pentwater
Pentwater, Michigan 49449

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of and for the year ended March 31, 2005 which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Pentwater's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate fund information of the Village of Pentwater as of March 31, 2005 and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005 on our consideration of the Village of Pentwater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant and agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

As described in Note A, the Village Pentwater has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of March 31, 2005.

BRICKLEY DELONG

Village Manager and Members
of the Village Council

June 9, 2005

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The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal control over financial reporting or on compliance.

The management's discussion and analysis and budgetary comparison information on pages i through vii and 28 through 32 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Pentwater's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Village of Pentwater
STATEMENT OF NET ASSETS
March 31, 2005

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 1,261,597	\$ 888,483	\$ 2,150,080
Receivables	21,592	93,851	115,443
Internal balances	52,555	(52,555)	-
Due from other governmental units	58,257	-	58,257
Inventories	-	24,263	24,263
Prepaid items	8,139	1,516	9,655
Total current assets	1,402,140	955,558	2,357,698
NONCURRENT ASSETS			
Restricted assets	-	159,003	159,003
Capital assets, net of depreciation			
Nondepreciable	34,699	257,190	291,889
Depreciable	1,016,109	2,199,076	3,215,185
Total assets	2,452,948	3,570,827	6,023,775
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	67,856	46,502	114,358
Customer deposits	375	-	375
Deferred revenue	133,043	56,185	189,228
Bonds, capital leases and contracts, due within one year	35,000	54,000	89,000
Accrued interest, due within one year	24,666	-	24,666
Compensated absences, due within one year	6,951	1,939	8,890
Total current liabilities	267,891	158,626	426,517
NONCURRENT LIABILITIES			
Bonds, capital leases and contracts, less amounts due within one year	785,000	401,000	1,186,000
Compensated absences, less amounts due within one year	30,778	-	30,778
Total noncurrent liabilities	815,778	401,000	1,216,778
Total liabilities	1,083,669	559,626	1,643,295
NET ASSETS			
Invested in capital assets, net of related debt	230,808	2,001,266	2,232,074
Restricted for:			
Highways and streets	262,926	-	262,926
Debt service	64,426	159,003	223,429
Unrestricted	811,119	679,454	1,490,573
Total net assets	\$ 1,369,279	\$ 2,839,723	\$ 4,209,002

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF ACTIVITIES
For the year ended March 31, 2005

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		
					Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 213,762	\$ 15,324	\$ 9,350	\$ -	\$ (189,088)	\$ -	\$ (189,088)
Public safety	393,513	119,309	677	-	(273,527)	-	(273,527)
Public works	322,535	80,578	112,620	9,311	(120,026)	-	(120,026)
Community and economic development	18,674	-	-	-	(18,674)	-	(18,674)
Culture and recreation	59,675	10,676	-	-	(48,999)	-	(48,999)
Interest on long-term debt	49,814	-	-	-	(49,814)	-	(49,814)
Total governmental activities	1,057,973	225,887	122,647	9,311	(700,128)	-	(700,128)
Business-type activities							
Sewer	221,533	228,280	-	-	-	6,747	6,747
Water	146,559	191,946	-	-	-	45,387	45,387
Marina	118,587	86,968	-	3,226	-	(28,393)	(28,393)
Total business-type activities	486,679	507,194	-	3,226	-	23,741	23,741
Total government	\$ 1,544,652	\$ 733,081	\$ 122,647	\$ 12,537	(700,128)	23,741	(676,387)
General revenues							
Property taxes, levied for general purposes					594,275	-	594,275
Property taxes, levied for debt service					79,809	-	79,809
Grants and contributions not restricted to specific programs					90,284	-	90,284
Unrestricted investment earnings					24,005	15,856	39,861
Other					23,746	-	23,746
Special item—gain on sale of asset					700	-	700
Transfers					(40,000)	40,000	-
Total general revenues, special items, and transfers					772,819	55,856	828,675
Change in net assets					72,691	79,597	152,288
Net assets at April 1, 2004					1,296,588	2,760,126	4,056,714
Net assets at March 31, 2005					\$ 1,369,279	\$ 2,839,723	\$ 4,209,002

The accompanying notes are an integral part of this statement.

Village of Pentwater
BALANCE SHEET
Governmental Funds
March 31, 2005

	General Fund	Fire Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 594,726	\$ 207,608	\$ 372,490	\$ 1,174,824
Receivables	21,242	350	-	21,592
Due from other governmental units	34,047	1,579	22,631	58,257
Prepaid items	5,284	2,124	498	7,906
Advances to other funds	52,555	-	-	52,555
Total assets	<u>\$ 707,854</u>	<u>\$ 211,661</u>	<u>\$ 395,619</u>	<u>\$ 1,315,134</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 22,876	\$ 8,057	\$ 833	\$ 31,766
Accrued liabilities	32,877	-	1,373	34,250
Customer deposits	-	-	375	375
Deferred revenue	3,307	129,016	720	133,043
Total liabilities	59,060	137,073	3,301	199,434
Fund balances				
Reserved for:				
Prepaid items	5,284	-	498	5,782
Advances	52,555	-	-	52,555
Debt service	-	-	64,426	64,426
Unreserved:				
Designated for:				
Industrial park	22,250	-	-	22,250
Improvements	-	-	1,114	1,114
Undesignated	568,705	74,588	326,280	969,573
Total fund balances	648,794	74,588	392,318	1,115,700
Total liabilities and fund balances	<u>\$ 707,854</u>	<u>\$ 211,661</u>	<u>\$ 395,619</u>	<u>\$ 1,315,134</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 March 31, 2005

Total fund balance—governmental funds	\$	1,115,700
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 1,511,076	
Accumulated depreciation	<u>(631,746)</u>	879,330

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds payable	(820,000)	
Compensated absences	<u>(37,270)</u>	(857,270)

Accrued interest in governmental activities is not reported in the governmental funds.		(24,666)
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Internal service funds are used by management to charge the costs of equipment used to
individual funds. The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>1,369,279</u></u>
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The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2005

	General Fund	Fire Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 552,362	\$ -	\$ 121,722	\$ 674,084
Licenses and permits	12,454	-	-	12,454
Intergovernmental revenues - state	94,961	-	112,620	207,581
Charges for services	84,908	119,244	7,931	212,083
Fines and forfeitures	1,350	-	-	1,350
Investment earnings	16,328	1,892	4,761	22,981
Other	26,145	1,064	11,202	38,411
Total revenues	788,508	122,200	258,236	1,168,944
EXPENDITURES				
Current				
General government	189,080	-	-	189,080
Public safety	278,791	85,825	-	364,616
Public works	204,344	-	135,050	339,394
Community and economic development	18,394	-	-	18,394
Culture and recreation	59,390	-	-	59,390
Other governmental functions	-	-	21,232	21,232
Debt service				
Principal	-	-	30,000	30,000
Interest and fees	-	-	50,714	50,714
Capital outlay	8,307	4,618	-	12,925
Total expenditures	758,306	90,443	236,996	1,085,745
Excess of revenues over (under) expenditures	30,202	31,757	21,240	83,199
OTHER FINANCING SOURCES (USES)				
Transfers in	17,753	-	11,520	29,273
Transfers out	(51,520)	-	(17,753)	(69,273)
Total other financing sources (uses)	(33,767)	-	(6,233)	(40,000)
Net change in fund balances	(3,565)	31,757	15,007	43,199
Fund balances at April 1, 2004	652,359	42,831	377,311	1,072,501
Fund balances at March 31, 2005	\$ 648,794	\$ 74,588	\$ 392,318	\$ 1,115,700

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
 For the year ended March 31, 2005

Net change in fund balances—total governmental funds	\$	43,199
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (52,465)	
Capital outlay	<u>31,547</u>	(20,918)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		30,000
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Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		900
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Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		18,787
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The internal service fund is used by management to charge the costs of equipment and information system costs to individual funds.

The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>723</u>
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Change in net assets of governmental activities	\$	<u><u>72,691</u></u>
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The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF NET ASSETS
Proprietary Funds
March 31, 2005

ASSETS

	Enterprise Funds				Internal Service Fund
	Sewer	Water	Marina	Total	
CURRENT ASSETS					
Cash and investments	\$ 566,120	\$ 260,565	\$ 61,798	\$ 888,483	\$ 86,773
Accounts receivable	58,614	35,237	-	93,851	-
Inventories	-	24,263	-	24,263	-
Prepaid items	684	747	85	1,516	233
Total current assets	625,418	320,812	61,883	1,008,113	87,006
NONCURRENT ASSETS					
Restricted assets	159,003	-	-	159,003	-
Capital assets, net					
Land	2,196	-	251,994	254,190	-
Plants and systems	2,621,331	760,175	-	3,381,506	-
Building and improvements	250,802	76,681	147,143	474,626	-
Equipment	46,555	35,497	160,805	242,857	440,640
Docks	-	-	181,004	181,004	-
Construction in progress	-	3,000	-	3,000	-
Less accumulated depreciation	(1,272,310)	(645,285)	(334,800)	(2,252,395)	(269,162)
Capital assets, net	1,648,574	230,068	406,146	2,284,788	171,478
Total noncurrent assets	1,807,577	230,068	406,146	2,443,791	171,478
Total assets	2,432,995	550,880	468,029	3,451,904	258,484
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	41,115	1,156	-	42,271	978
Accrued expenses	905	2,087	1,239	4,231	862
Deferred revenue	-	675	55,510	56,185	-
Bonds, capital leases and contracts, due within one year	54,000	-	-	54,000	-
Compensated absences, due within one year	819	1,057	63	1,939	459
Total current liabilities	96,839	4,975	56,812	158,626	2,299
NONCURRENT LIABILITIES					
Bonds, capital leases and contracts, less amounts due within one year	401,000	-	-	401,000	-
Advances from other funds	-	-	52,555	52,555	-
Total noncurrent liabilities	401,000	-	52,555	453,555	-
Total liabilities	497,839	4,975	109,367	612,181	2,299
NET ASSETS					
Invested in capital assets, net of related debt	1,352,577	230,068	406,146	1,988,791	171,478
Restricted for debt service	159,003	-	-	159,003	-
Unrestricted	423,576	315,837	(47,484)	691,929	84,707
Total net assets	\$ 1,935,156	\$ 545,905	\$ 358,662	\$ 2,839,723	\$ 256,185

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended March 31, 2005

	Enterprise Funds				Internal
	Sewer	Water	Marina	Total	Service Fund
OPERATING REVENUES					
Charges for services	\$ 227,872	\$ 183,261	\$ 86,303	\$ 497,436	\$ 84,152
Other	408	8,685	665	9,758	156
Total operating revenues	228,280	191,946	86,968	507,194	84,308
OPERATING EXPENSES					
Administration	50,739	72,791	-	123,530	-
Operations	72,298	41,932	102,632	216,862	63,230
Depreciation	67,896	27,675	13,952	109,523	22,079
Total operating expenses	190,933	142,398	116,584	449,915	85,309
Operating income (loss)	37,347	49,548	(29,616)	57,279	(1,001)
NONOPERATING REVENUES (EXPENSES)					
Investment income	9,477	5,864	515	15,856	1,024
Capital grants	-	-	3,226	3,226	-
Interest expense	(30,600)	(4,161)	(2,003)	(36,764)	-
Total nonoperating revenue (expenses)	(21,123)	1,703	1,738	(17,682)	1,024
Income (loss) before transfers	16,224	51,251	(27,878)	39,597	23
Transfers in	-	-	40,000	40,000	-
Special item—gain on sale of equipment	-	-	-	-	700
Change in net assets	16,224	51,251	12,122	79,597	723
Total net assets at April 1, 2004	1,918,932	494,654	346,540	2,760,126	255,462
Total net assets at March 31, 2005	\$ 1,935,156	\$ 545,905	\$ 358,662	\$ 2,839,723	\$ 256,185

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended March 31, 2005

	Enterprise Funds				Internal Service Fund
	Sewer	Water	Marina	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 224,510	\$ 174,834	\$ 86,303	\$ 485,647	\$ 84,152
Receipts from interfund services provided	240	6,377	-	6,617	-
Payments to suppliers	(68,940)	(57,498)	(41,509)	(167,947)	(39,048)
Payments to employees	(49,273)	(60,684)	(60,449)	(170,406)	(23,538)
Other receipts	408	9,360	18,780	28,548	156
Net cash provided by operating activities	106,945	72,389	3,125	182,459	21,722
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	-	-	40,000	40,000	-
Advances from other funds	-	(142,886)	(2,766)	(145,652)	-
Net cash provided by (used for) noncapital financing activities	-	(142,886)	37,234	(105,652)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	-	-	3,226	3,226	-
Proceeds from the sale of fixed assets	-	-	-	-	700
Purchases of capital assets	(16,164)	(3,000)	(51,866)	(71,030)	(7,593)
Principal and interest paid on capital debt	(55,600)	(4,162)	(2,003)	(61,765)	-
Net cash provided by (used for) capital and related financing activities	(71,764)	(7,162)	(50,643)	(129,569)	(6,893)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment income	9,477	5,864	515	15,856	1,024
Net increase (decrease) in cash and cash investments	44,658	(71,795)	(9,769)	(36,906)	15,853
Cash and investments at April 1, 2004	680,465	332,360	71,567	1,084,392	70,920
Cash and investments at March 31, 2005	<u>\$ 725,123</u>	<u>\$ 260,565</u>	<u>\$ 61,798</u>	<u>\$ 1,047,486</u>	<u>\$ 86,773</u>
Reconciliation of cash and investments to the balance sheet					
Cash and investments	\$ 566,120	\$ 260,565	\$ 61,798	\$ 888,483	\$ 86,773
Restricted assets	159,003	-	-	159,003	-
	<u>\$ 725,123</u>	<u>\$ 260,565</u>	<u>\$ 61,798</u>	<u>\$ 1,047,486</u>	<u>\$ 86,773</u>
Reconciliation of operating income (loss) to net cash provided by (used for)					
operating activities					
Operating income (loss)	\$ 37,347	\$ 49,548	\$ (29,616)	\$ 57,279	\$ (1,001)
Adjustments to reconcile operating income to net cash provided (used) by					
operating activities					
Depreciation expense	67,896	27,675	13,952	109,523	22,079
Change in assets and liabilities					
Receivables, net	(3,122)	(2,050)	-	(5,172)	-
Inventories	-	(3,927)	-	(3,927)	-
Prepaid items	(101)	(106)	97	(110)	(34)
Accounts and other payables	5,177	892	(109)	5,960	479
Accrued expenses	(252)	(318)	686	116	199
Due to other funds	-	-	18,115	18,115	-
Deferred revenue	-	675	-	675	-
Net cash provided by operating activities	<u>\$ 106,945</u>	<u>\$ 72,389</u>	<u>\$ 3,125</u>	<u>\$ 182,459</u>	<u>\$ 21,722</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
March 31, 2005

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>564</u>
Total assets	\$ <u><u>564</u></u>
 LIABILITIES	
Due to other governmental units	\$ <u>564</u>
Total liabilities	\$ <u><u>564</u></u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Pentwater (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Effective April 1, 2004, the Village adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balances at April 1, 2004—governmental funds	\$ 1,072,501
Capital assets, net	900,248
Internal service fund equity	255,462
Accrued liabilities	(25,566)
Long-term liabilities	(850,000)
Compensated absences	<u>(56,057)</u>
Restated net assets at April 1, 2004	<u>\$ 1,296,588</u>

1. Reporting Entity

The Village of Pentwater (Village) is a municipal corporation governed by an elected seven-member Village Council and is administered by a Village manager appointed by the Village Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Blended component units

Downtown Development Authority. The Village appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt (if any) remains with the Village. The Authority is reported as a special revenue fund.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

1. Reporting Entity—Continued

Blended component units—Continued

Pentwater Friendship Center. The Village approves all board members and annual budgets for the Friendship Center, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Friendship Center is reported as a special revenue fund.

Pentwater Fire Department. The Village approves all board members and annual budgets for the Fire Department, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Fire Department is reported as a special revenue fund.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund provides fire protection services for the Village.

The Village reports the following three major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the Village's water distribution system.

The Marina Fund operates the Village marina.

Additionally, the Village reports the following fund types:

Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

The agency fund is used to accumulate payroll and payroll withholdings. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and the Village's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Village's investment pool. All investments are stated at fair value.

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

b. Receivables and Payables—Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following September 15 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the Village totaled \$67,972,911 of which \$6,716,299 was captured by the Downtown Development Authority. The ad valorem taxes levied consisted of 13.219 mills for the Village's operating purposes. These amounts are recognized in the respective General Fund and DDA.

c. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out(FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

e. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village has elected not to report infrastructure capital assets prior to April 1, 2004. The Village will record and depreciate all future infrastructure additions.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

e. Capital Assets—Continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-40
Infrastructure	20-30
Land improvements	10-20
Equipment	5-10
Docks	10
Water system	15-50
Sewage system	25-100

f. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for police and 90 days for all other Village employees. Unused accumulated sick leave is paid to employees who resign or retire, limited to 120 days. All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

g. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds and debt service funds. Capital projects funds adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

2. Fund Deficits

As of March 31, 2005, the funds listed below had accumulated deficits as follows:

<u>Fund</u>	<u>Accumulated deficits</u>
Enterprise Fund	
Marina	<u>\$47,484</u>

The deficits will be eliminated through future operations and operating transfers.

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Village's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of March 31, 2005, the Village's carrying amount of deposits was \$782,027, and the bank balance was \$789,446. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$682,028 was uninsured and uncollateralized.

2. Investments

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Village's name.

	<u>Category</u>			<u>Fair value amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of deposit	\$ <u>400,000</u>	\$ <u>1,127,620</u>	\$ <u>-</u>	\$ <u>1,527,620</u>

Below is a summary of the combined balance sheet deposits and investments:

	<u>Government activities</u>	<u>Business- type activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and investments	\$ 1,261,597	\$ 888,483	\$ 564	\$ 2,150,644
Restricted asset	<u>-</u>	<u>159,003</u>	<u>-</u>	<u>159,003</u>
Total deposits and investments	\$ <u>1,261,597</u>	\$ <u>1,047,486</u>	\$ <u>564</u>	\$ <u>2,309,647</u>

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE C—DEPOSITS AND INVESTMENTS—Continued

3. Restricted Assets

Restrictions are placed on assets by bond ordinance and Village Council action. At March 31, 2005, restricted cash and investments in the enterprise funds are restricted as follows:

Business-type activities

Sewer Fund

Bond and Interest Redemption Fund	\$ 31,739
Replacement Fund	62,838
Bond reserve fund	<u>64,426</u>
	<u>\$ 159,003</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved by March 2005, as required. As of March 31, 2005, there was \$98,000 deposited into this account.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 34,699	\$ -	\$ -	\$ 34,699
Capital assets, being depreciated:				
Buildings and other improvements	598,065	-	-	598,065
Land improvements	12,590	28,990	-	41,580
Equipment	<u>1,479,563</u>	<u>65,485</u>	<u>267,676</u>	<u>1,277,372</u>
Total capital assets, being depreciated	2,090,218	94,475	267,676	1,917,017
Less accumulated depreciation:				
Buildings and other improvements	210,382	15,566	-	225,948
Land improvements	2,436	1,826	-	4,262
Equipment	<u>825,887</u>	<u>57,152</u>	<u>212,341</u>	<u>670,698</u>
Total accumulated depreciation	<u>1,038,705</u>	<u>74,544</u>	<u>212,341</u>	<u>900,908</u>
Total capital assets, being depreciated, net	<u>1,051,513</u>	<u>19,931</u>	<u>55,335</u>	<u>1,016,109</u>
Capital assets, net	<u>\$ 1,086,212</u>	<u>\$ 19,931</u>	<u>\$ 55,335</u>	<u>\$ 1,050,808</u>

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE D—CAPITAL ASSETS—Continued

	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 254,190	\$ -	\$ -	\$ 254,190
Construction in progress	<u>40,000</u>	<u>3,000</u>	<u>40,000</u>	<u>3,000</u>
Total capital assets, not being depreciated	294,190	3,000	40,000	257,190
Capital assets, being depreciated:				
Plants and systems	3,381,506	-	-	3,381,506
Buildings and improvements	458,461	16,165	-	474,626
Equipment	82,052	160,805	-	242,857
Docks	<u>183,403</u>	<u>91,865</u>	<u>94,264</u>	<u>181,004</u>
Total capital assets, being depreciated	4,105,422	268,835	94,264	4,279,993
Less accumulated depreciation:				
Plants and systems	1,577,333	78,543	-	1,655,876
Building and improvements	254,729	19,802	-	274,531
Equipment	61,662	164,967	-	226,629
Docks	<u>182,608</u>	<u>7,015</u>	<u>94,264</u>	<u>95,359</u>
Total accumulated depreciated	<u>2,076,332</u>	<u>270,327</u>	<u>94,264</u>	<u>2,252,395</u>
Total capital assets, being depreciated, net	<u>2,029,090</u>	<u>(1,492)</u>	<u>-</u>	<u>2,027,598</u>
Capital assets, net	<u>\$ 2,323,280</u>	<u>\$ 1,508</u>	<u>\$ 40,000</u>	<u>\$ 2,284,788</u>

Government activities:

Depreciation expense was charged to functions as follows:

General government	\$ 9,303
Public safety	36,246
Public works	6,351
Culture and recreation	285
Community and economic development	280
Capital assets held by the government's internal service fund are charged to the various functions based on their usage of the assets	<u>21,967</u>
	<u>\$ 74,432</u>

Business-type activities:

Depreciation

Depreciation expense was charged to functions as follows:

Sewer	\$ 67,896
Water	27,675
Marina	<u>13,952</u>
	<u>\$ 109,523</u>

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2005

NOTE E—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Village</u>	
	<u>Unavailable</u>	<u>Unearned</u>
Fire Fund	\$ <u>1,579</u>	\$ <u>127,437</u>
Total deferred/unearned revenue for governmental funds	\$ <u>1,579</u>	\$ <u>127,437</u>

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances, caused by normal operations, is as follows:

Advances to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>			<u>Amount</u>	
General Fund	Marina Fund			\$ <u>52,555</u>	
	<u>Transfers in:</u>				
	<u>General Fund</u>	<u>Other nonmajor funds</u>	<u>Marina</u>	<u>Total</u>	<u>Purpose</u>
General Fund	\$ -	\$ 11,520	\$ -	\$ 11,520	Operations
General Fund	-	-	40,000	40,000	Capital outlay
Nonmajor governmental funds	<u>17,753</u>	<u>-</u>	<u>-</u>	<u>17,753</u>	Operations
Total	\$ <u>17,753</u>	\$ <u>11,520</u>	\$ <u>40,000</u>	\$ <u>69,273</u>	

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2005.

	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 850,000	\$ -	\$ 30,000	\$ 820,000	\$ 35,000
Compensated absences	<u>56,057</u>	<u>-</u>	<u>25,279</u>	<u>30,778</u>	<u>-</u>
Governmental activity long-term liabilities	\$ <u>906,057</u>	\$ <u>-</u>	\$ <u>55,279</u>	\$ <u>850,778</u>	\$ <u>35,000</u>
Business-type activities:					
Revenue bonds	\$ <u>480,000</u>	\$ <u>-</u>	\$ <u>25,000</u>	\$ <u>455,000</u>	\$ <u>54,000</u>

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance <u>March 31, 2005</u>
Governmental activities:	
General obligation bonds:	
\$990,000 General Obligation bonds of 1996 due in annual installments of \$35,000 to \$100,000 through April 2017; plus interest at rates varying from 6% to 6.05%	\$ 820,000
Compensated absences	<u>30,778</u>
	<u>\$ 850,778</u>
Business-type activities:	
Revenue bonds:	
\$750,000 Sewage Disposal Junior Lien Revenue bonds of 1986 due in annual installments of \$25,000 through April 2025; plus interest at 6.38%	\$ <u>455,000</u>

The general obligation bonds are backed by the full faith and credit of the Village.

The Village was in compliance in all material respects with all the revenue bond ordinances at March 31, 2005.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2005 follows:

Year ending <u>March 31, 2005</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 35,000	\$ 48,300	\$ 25,000	\$ 29,000
2007	40,000	46,000	25,000	27,400
2008	40,000	43,600	25,000	25,800
2009	50,000	40,900	25,000	24,200
2010	50,000	37,900	25,000	22,600
2011-2015	340,000	135,100	125,000	89,300
2016-2020	265,000	25,334	125,000	49,500
2021-2025	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>14,613</u>
Total	<u>\$ 820,000</u>	<u>\$ 377,134</u>	<u>\$ 455,000</u>	<u>\$ 282,413</u>

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE H—OTHER INFORMATION

1. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Pentwater
327 S. Hancock Street
Pentwater, MI 49449

Funding Policy. Village employees contribute 3 percent of their earnings to the Plan. The Village is required to contribute at an actuarially-determined rate depending upon position from 5.57 to 5.97 percent of covered payroll.

Annual Pension Cost. For the year ended March 31, 2005, the Village's annual pension cost of \$20,838 was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.2 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll.

Village of Pentwater
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
March 31, 2005

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Three-Year Trend Information

<u>Year ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
3/31/03	\$ -	100%	\$ -
3/31/04	5,286	100	-
3/31/05	20,838	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/01	\$864,305	\$785,136	\$(79,619)	110%	\$335,279	(23.7)%
12/31/02	863,278	895,546	32,268	96	352,324	9.2
12/31/03	905,151	958,795	53,644	94	341,371	15.7

REQUIRED SUPPLEMENTAL INFORMATION

Village of Pentwater
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2005

	Budgeted amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 536,041	\$ 550,384	\$ 552,362	\$ 1,978
Licenses and permits	9,200	9,200	12,454	3,254
Intergovernmental - state	78,300	82,300	94,961	12,661
Charges for services	82,876	82,876	84,908	2,032
Fines and forfeitures	2,500	2,500	1,350	(1,150)
Investment earnings	7,000	7,000	16,328	9,328
Other	23,050	28,400	26,145	(2,255)
Total revenues	738,967	762,660	788,508	25,848
EXPENDITURES				
Current				
General government				
Council	54,858	64,358	64,143	215
President	4,200	6,835	5,422	1,413
Manager	30,500	30,500	25,415	5,085
Clerk	94,174	94,174	80,307	13,867
Treasurer	2,615	2,615	1,715	900
Hall	8,732	12,182	10,620	1,562
Elections	2,900	2,900	1,458	1,442
Public safety				
Police Department	252,859	292,951	278,791	14,160
Public works				
DPW	105,368	121,629	98,658	22,971
Street Lighting	25,118	26,118	25,468	650
Sanitation	83,000	83,000	80,218	2,782
Community and economic development				
Planning Commission	10,825	12,942	6,820	6,122
Zoning	14,075	14,075	11,574	2,501
Culture and recreation				
Recreation Program	9,730	9,730	8,689	1,041
Parks	63,280	59,262	50,701	8,561
Capital outlay	-	8,307	8,307	-
Total expenditures	762,234	841,578	758,306	83,272
Excess of revenues over (under) expenditures	(23,267)	(78,918)	30,202	109,120
OTHER FINANCING SOURCES (USES)				
Transfers in	-	17,751	17,753	2
Transfers out	(40,000)	(51,520)	(51,520)	-
Total other financing sources and uses	(40,000)	(33,769)	(33,767)	2
Net change in fund balance	\$ (63,267)	\$ (112,687)	(3,565)	\$ 109,122
Fund balance at April 1, 2004			652,359	
Fund balance at March 31, 2005			\$ 648,794	

Village of Pentwater
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE

Fire Fund
For the year ended March 31, 2005

	Budgeted amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 118,492	\$ 118,492	\$ 119,244	\$ 752
Investment earnings	500	500	1,892	1,392
Other	-	-	1,064	1,064
Total revenues	118,992	118,992	122,200	3,208
EXPENDITURES				
Current				
Public safety	99,498	99,498	85,825	13,673
Capital outlay	4,500	4,500	4,618	(118)
Total expenditures	103,998	103,998	90,443	13,555
Net change in fund balance	\$ 14,994	\$ 14,994	31,757	\$ 16,763
Fund balance at April 1, 2004			42,831	
Fund balance at March 31, 2005			\$ 74,588	

OTHER SUPPLEMENTAL INFORMATION

Village of Pentwater
COMBINING BALANCE SHEET
Nonmajor Governmental Funds
March 31, 2005

	Total other governmental funds	Special Revenue Funds					Capital Projects Fund	Debt Service Funds	
		Major Street	Local Street	Downtown Development Authority	Friendship Center	Memorial Fund	Ramp/ Marina	Debt Service	Debt Service LR/Marina
ASSETS									
Cash and investments	\$ 372,490	\$ 187,836	\$ 58,105	\$ 37,795	\$ 26,084	\$ 1,114	\$ -	\$ 61,556	\$ -
Due from other governmental units	22,631	10,786	7,563	887	525	-	-	2,870	-
Prepaid items	498	169	271	-	58	-	-	-	-
Total assets	<u>\$ 395,619</u>	<u>\$ 198,791</u>	<u>\$ 65,939</u>	<u>\$ 38,682</u>	<u>\$ 26,667</u>	<u>\$ 1,114</u>	<u>\$ -</u>	<u>\$ 64,426</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$ 833	\$ 833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	1,373	44	927	-	402	-	-	-	-
Customer deposits	375	-	-	-	375	-	-	-	-
Deferred revenue	720	-	-	-	720	-	-	-	-
Total liabilities	3,301	877	927	-	1,497	-	-	-	-
Fund balances									
Reserved for:									
Prepaid items	498	169	271	-	58	-	-	-	-
Debt service	64,426	-	-	-	-	-	-	64,426	-
Unreserved:									
Designated for improvements	1,114	-	-	-	-	1,114	-	-	-
Undesignated	326,280	197,745	64,741	38,682	25,112	-	-	-	-
Total fund balances	<u>392,318</u>	<u>197,914</u>	<u>65,012</u>	<u>38,682</u>	<u>25,170</u>	<u>1,114</u>	<u>-</u>	<u>64,426</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 395,619</u>	<u>\$ 198,791</u>	<u>\$ 65,939</u>	<u>\$ 38,682</u>	<u>\$ 26,667</u>	<u>\$ 1,114</u>	<u>\$ -</u>	<u>\$ 64,426</u>	<u>\$ -</u>

Village of Pentwater
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended March 31, 2005

	Total other governmental funds	Special Revenue Funds					Capital Projects Fund	Debt Service Funds	
		Major Street	Local Street	Downtown Development Authority	Friendship Center	Memorial Fund	Ramp/ Marina	Debt Service	Debt Service LR/Marina
REVENUES									
Property taxes	\$ 121,722	\$ -	\$ 14,022	\$ 13,352	\$ 14,539	\$ -	\$ -	\$ 79,809	\$ -
Intergovernmental revenues - state	112,620	63,721	48,899	-	-	-	-	-	-
Charges for services	7,931	2,165	-	-	5,766	-	-	-	-
Investment earnings	4,761	2,430	851	449	370	13	-	631	17
Other	11,202	167	9,515	-	1,360	160	-	-	-
Total revenues	258,236	68,483	73,287	13,801	22,035	173	-	80,440	17
EXPENDITURES									
Current									
Public works	135,050	50,090	84,960	-	-	-	-	-	-
Other governmental functions	21,232	-	-	1,617	19,478	137	-	-	-
Debt service									
Principal	30,000	-	-	-	-	-	-	30,000	-
Interest and fees	50,714	-	-	-	-	-	-	50,714	-
Total expenditures	236,996	50,090	84,960	1,617	19,478	137	-	80,714	-
Excess of revenues over (under) expenditures	21,240	18,393	(11,673)	12,184	2,557	36	-	(274)	17
OTHER FINANCING SOURCES (USES)									
Transfers in	11,520	-	11,520	-	-	-	-	-	-
Transfers out	(17,753)	-	-	-	-	-	(826)	-	(16,927)
Total other financing sources (uses)	(6,233)	-	11,520	-	-	-	(826)	-	(16,927)
Net change in fund balances	15,007	18,393	(153)	12,184	2,557	36	(826)	(274)	(16,910)
Fund balances at April 1, 2004	377,311	179,521	65,165	26,498	22,613	1,078	826	64,700	16,910
Fund balances at March 31, 2005	<u>\$ 392,318</u>	<u>\$ 197,914</u>	<u>\$ 65,012</u>	<u>\$ 38,682</u>	<u>\$ 25,170</u>	<u>\$ 1,114</u>	<u>\$ -</u>	<u>\$ 64,426</u>	<u>\$ -</u>

OTHER DOCUMENTS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OFFINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 9, 2005

Village Manager and
Members of the Village Council
Village of Pentwater
Pentwater, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of and for the year ended March 31, 2005 which collectively comprise the Village of Pentwater's basic financial statements and have issued our report thereon dated June 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pentwater's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

BRICKLEY DELONG

Village Manager and
Members of the Village Council
June 9, 2005
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Compliance

As part of obtaining reasonable assurance about whether the Village of Pentwater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC